



PRESIDENT'S COUNCIL  
ON INTEGRITY AND  
EFFICIENCY

FISCAL YEAR 1982  
FIRST SIX MONTHS

ADDRESSING  
FRAUD, WASTE  
AND ABUSE

**A SUMMARY  
REPORT OF  
INSPECTOR  
GENERAL  
ACTIVITIES**

**SUMMARY REPORT OF INSPECTOR GENERAL ACTIVITIES**  
**Fiscal Year 1982 First Six Months**  
**Errata Sheet**

Page 8: Review of Unliquidated Obligations. Heading should read: "Improvements Needed in Monitoring Unliquidated Obligations"

Page 18: Costs Avoided. The second sentence should read: "Of these costs, approximately \$4.5 billion are one-time costs while an additional \$368 million are projected on an annual recurring basis."



EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

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FACT SHEET

THIRD CONSOLIDATED REPORT OF THE  
INSPECTORS GENERAL ON WASTE, FRAUD  
AND MISMANAGEMENT

Summary: The President's Council on Integrity and Efficiency today released its third consolidated report on waste, fraud and mismanagement in the Federal government. The report highlights the activities of the Inspectors General during the six month period ending March 31, 1982 and discloses over \$5.8 billion in direct savings and improved use of funds.

Background: The President's Council on Integrity and Efficiency was established by Executive Order on March 26, 1981 to strengthen the Inspector General program and to spearhead the Administration's campaign to reduce fraud and waste in Federal programs and operations. Council membership includes the Inspectors General of all major departments and agencies, as well as representatives of the Departments of Defense, Justice, and Treasury, the Federal Bureau of Investigation, the Office of Personnel Management and the Office of Management and Budget.

The reported \$5.8 billion in direct savings and improved use of funds takes several forms including:

- o \$900 million represented mostly by the commitment of Federal managers to retrieve money owed to the government by contractors or grantees
- o \$4.9 billion represented mostly by reductions in the price of Government purchases as a result of auditors' recommendations, as well as decisions to award grants to more deserving recipients
- o \$17 million resulting from investigative efforts of the Inspectors General
- o \$23 million from decisions by courts to impose fines and penalties and to render settlements on persons who have misused Federal money.

In the last six month period the Inspectors General reported:

- o 925 indictments
- o 1,050 convictions
- o over 6,500 allegations received from agency hotlines and other referrals to their offices
- o 258 employees being fired or suspended and 290 employees given reprimands or demotions
- o over 54,000 audit reports issued
- o over 13,000 investigations opened and 12,537 investigations closed

These accomplishments are positive evidence of the Administration's commitment to improve the management of Federal programs and to spend taxpayers' dollars more wisely.

### Inspector General Activities

Activities of the Inspectors General during the last six months include:

- o Cost Avoidance: The Inspector General at the Department of Transportation avoided spending \$399 million by releasing funds that were obligated for highway construction projects. States in four regions had maintained excess Federal-aid highway funds of \$399 million which should have been released and made available for other highway construction projects.
- o Recovery of Federal funds: The audit of a general vocational rehabilitation program by the Department of Education IG disclosed \$6 million in unallowable costs. Among other things the auditors reported: improper use of grant funds, unallowable rental costs and the inappropriate write-off of some equipment costs. The state was directed to make appropriate financial adjustments of about \$6 million.
- o Loans Recalled: An IG review of all business and industrial loans made by the Farmers Home Administration in Oklahoma resulted in \$24 million in loan guarantees subject to early collection or cancellation.
- o Computer Matching: Matching computer files provides significant opportunities for the IGs to detect and prevent fraud and abuse in Federally financed operations. The value of computer matching is demonstrated by the success of many matches including:

The Health Care Financing Administration's record of deceased Medicare patients matched against the Social Security Administration's Master Beneficiary Records was initiated last August by the HHS Inspector General. Approximately 6,000 cases were identified where benefits were being paid to individuals who were deceased. Stopping these payments will save an estimated \$20 million this year and even greater amounts in subsequent years.

- o VA Tuition Fraud: A Veterans Administration investigation resulted in the conviction of a school owner in Puerto Rico who had conspired to defraud the United States government. The defendant owed the U.S. \$1.2 million for engaging in a scheme involving tuitions paid to veterans.
- o Corporate Fraud: The Inspector General at the Department of Education uncovered a fraudulent scheme involving a large U.S. corporation. The company admitted that it lied to the government in its handling of default claims submitted under the Guaranteed Student Loan Program for correspondence courses conducted through a subsidiary company. The corporation must reimburse \$3.7 million to the Department of Education for improper default claims.
- o Management Improvement: An audit of an Army air defense unit's annual training program concluded that the unit could save about \$4 million annually by using a nearby Marine Corps facility rather than transporting personnel and equipment 1,800 miles to an Army range. Use of the Marine Corps facility will begin this fiscal year.

THE WHITE HOUSE

WASHINGTON

CABINET MEETING AGENDA

June 15, 1982 -- 2:00 p.m.

1. President's Council on Integrity and Efficiency Joseph Wright
2. European Trip The President  
Alexander Haig  
Donald Regan
3. Budget Update James Baker  
Ken Duberstein

CABINET MEETING PARTICIPANTS

Tuesday, June 15, 1982 -- 2:00 p.m.

The Cabinet -- All Members \*

- \* Frank C. Carlucci, Deputy Secretary of Defense, for Secretary Weinberger
- \* Malcolm R. Lovell, Jr., Under Secretary of Labor, for Secretary Donovan
- \* Darrell Trent, Deputy Secretary of Transportation, for Secretary Lewis
- \* Joseph Wright, Jr., Deputy Director of OMB, for David Stockman
- \* The Vice President will not attend
- \* Ambassador Kirkpatrick will not attend

James A. Baker  
Richard G. Darman  
Kenneth Duberstein  
Craig L. Fuller  
David R. Gergen  
Edwin L. Harper  
James Jenkins  
Murray Weidenbaum  
Rich Williamson  
Red Cavaney for Elizabeth Dole  
Kenneth Cribb  
Edwin J. Gray  
Jim Cicconi  
Fred Bush for The Vice President  
Karen Hart

"In establishing the Council (on Integrity and Efficiency) I assured the American people that this was no cosmetic gesture, but a serious substantial step toward restoring government efficiency and thereby rebuilding public confidence in our political institutions.

I promised that we would follow every lead, root out every incompetent and prosecute every crook that we found cheating the people of this nation. Thanks to the dedication of these Inspectors General, this pledge has been and will continue to be kept.

We are reducing fraud, improving management controls, eliminating errors in government programs, and by doing so, also providing a growing deterrent against future abuses."

President Ronald Reagan  
December 7, 1981  
Speaking to the Press  
White House Press Room

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# INTRODUCTION

## INTRODUCTION

Responding to the mandate of the President and the American people, the Inspectors General are leading the effort to reduce waste, fraud, and abuse, and to significantly stimulate the improvement of management in the Government.

**In the six months from October 1, 1981, to March 31, 1982, the Inspectors General reported over \$5.8 billion in direct savings and improved use of funds to the Federal government and the American taxpayer.<sup>1/</sup>** This amount, while difficult to determine precisely, is the aggregate of the measurable financial benefits of Inspector General activities resolved or realized during this six month period. The \$5.8 billion takes many forms including:

- o \$900 million typically represented by commitments of Federal managers to seek recoveries of amounts owed the Government and money returned to the Federal government which had been inappropriately spent by contractors or grantees;
- o \$4.9 billion typically represented by reductions in the negotiated prices of major purchases by the Government as a result of auditors' recommendations, decisions not to award grants to particular recipients so that funds could be used for more responsible and deserving recipients, and the best estimates of savings as a result of management improvements;
- o \$17 million resulting from investigation efforts of the Inspectors General;
- o \$23 million from decisions by courts to impose fines and penalties, to order restitutions, and to render judgements against persons who have misused Federal money.

\* \* \* \* \*

<sup>1/</sup> For the first time, the financial benefits include the results reported by the Defense Contract Audit Agency (DCAA). If these results had been included in the *Summary Report* for the six months ended September 30, 1981, the financial benefits for that period would have increased by approximately \$3.4 billion to a total of \$5.4 billion.

In addition, the Inspectors General help to identify and eliminate potential vulnerabilities *before* serious problems develop. Although prevention is often difficult to quantify, the significance of management recommendations made by the Inspectors General should not be dismissed simply because a dollar figure cannot be attached. The resulting increase in program effectiveness can be as, if not more, important to the management of the Federal government as identifying individuals who have defrauded the Government.

Whatever form the results of the Inspector General program take, both the Government and the American taxpayer profit from wiser use of limited Government resources and better management of Federal programs designed to serve the public.

#### **PRESIDENT'S COUNCIL SPEARHEADS FRAUD AND WASTE PROGRAM**

President Reagan is strongly committed to supporting the Inspectors General and meeting his goal of improving Government management and reducing waste. On March 26, 1981, he established the **President's Council on Integrity and Efficiency** to coordinate and strengthen the efforts of the Inspectors General -- an action which he characterized as a signal to "everyone who works for or does business with the Government that we mean business."

This report by the Council summarizes the significant impact -- measured in terms of savings, improved use of funds, and increased effectiveness of Federal programs -- which the Inspectors General and the Council have had in responding to the demand of the American people for honesty in Government.

#### **MEASURING RESULTS**

Both the measurable and the nonquantifiable results of the Inspector General effort demonstrate the effectiveness of the program in this Administration. The financial benefits reported by the Inspectors General for the six months ended March 31, 1982, have increased by approximately \$400 million over the results reported for the prior six month period (although precise comparisons are difficult because of the changes in definitions).

Reporting and measuring the results of the Inspector General program has been an evolutionary undertaking of the President's Council on Integrity and Efficiency. In the first *Summary Report* (July 1981), the Council consolidated the results provided by each of the IGs without attempting to impose common definitions. For the second *Summary* (December 1981), an effort was made to standardize the definitions of the data presented. For this *Report* (June 1982), definitions of the data elements were standardized and refined.

For instance:

- o The Council is now reporting the sustained findings and recommendations of the Inspectors General -- **those findings and recommendations on which management has agreed to take action** -- as the measure of financial benefits of IG activities. This is consistent with the Administration's emphasis on the role of management in actually recovering funds owed the Government as a result of IG audits and investigations.
- o The Council is including "preaward" audits in the measure of financial benefits of IG activities because it recognizes that the **reduction of negotiated prices of major contracts is a significant "cost avoidance" for the Government.**

These measures of savings and improved use of funds are similar to those used by the General Accounting Office in its *Annual Report*.

The major reason for presenting these measures of financial benefits is to provide a means for assessing the Governmentwide impact of the entire Inspector General program and not the results in any one agency. Indeed, comparisons among agencies can often be misleading. Inspector General resources in each agency are focused on the most vulnerable programs and operations in that agency. The result of that focus may be a financial recovery or cost avoidance, or it may be legislative and programmatic changes which cannot be quantified.

It is also important to remember that the subject of a report of waste or mismanagement may have occurred and been audited by the IGs before October 1, 1981, but it is during this period (October 1, 1981, through March 31, 1982) that management has determined the corrective actions it will take. Financial benefits are not counted until management has made this determination; therefore, the results are counted in this and not prior periods.

### CONTENTS OF THIS SUMMARY REPORT

This *Summary Report* covers the six month period ended March 31, 1982. The *Report* is designed to highlight the significant Governmentwide activities of the Inspectors General, the President's Council on Integrity and Efficiency, and related Administration efforts to combat fraud, waste, and mismanagement in Government operations.

Most of the data and information in the *Summary* are extracted from: the Inspector General reports to the Congress for October 1, 1981, through March 31, 1982; information submitted by the agencies' officials responsible for audit resolution and implementation; and, other information made available to the Office of Management and Budget. Information on activities of specific Inspectors General or copies of their reports may be obtained directly from the individual offices of the Inspectors General.

# **PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY**

## PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY

The President's Council on Integrity and Efficiency, established by Executive order in March 1981, spearheads the Administration's effort to reduce waste and mismanagement in Federal programs by promoting Governmentwide Inspector General activities.

The Council members have focused their attention in this first year on interagency efforts to strengthen Inspector General operations. As reported in the second *Summary Report* (December 1981), the Council's projects have been designed to generate savings and improve Government operations.

### INTERAGENCY PROJECTS HAVE BEEN VALUABLE

During the past six months, the positive value of cooperative efforts among the Inspectors General has been demonstrated by several projects.

**Federal Employees Disability Compensation** -- the Federal Employees Compensation Act (FECA), administered by the Department of Labor, provides compensation and benefits to all civilian employees for job-related injuries, diseases, or deaths. There are currently more than 48,000 claimants receiving long term benefits costing approximately \$1 billion each year.

**WEAKNESSES  
IDENTIFIED IN  
\$1 BILLION FECA  
PROGRAM**

The Inspector General at Labor is leading the Council project to examine problems in the management of FECA claims and to identify specific cases that require further investigation or administrative action. Of the over 10,000 cases reviewed by the project team, more than 75 percent had apparent problems. Almost 4,100 case files contained medical information which was not current; over 2,900 did not have current information of eligibility and payment factors; and some 700 needed further investigation or attention by the employing agency.

The project has disclosed a number of administrative problems in:

- o analysis of claims files by claims examiners;
- o follow-up on requests for medical reports;
- o efforts to detect unreported income;
- o investigations of injuries by employing agencies;

- o follow-up by employing agencies to help control compensation costs; and

- o attempts to rehabilitate and re-employ injured employees.

As a result of this review, the Department of Labor has terminated or reduced benefits in over 150 cases. In addition, hundreds of corrective actions are being taken.

Final data from the Atlanta Project, the pilot preceding the nationwide effort, show that benefits to 95 claimants were terminated or reduced, resulting in yearly savings of \$850,889. Considering that the average claimant is on the rolls for 16 years, the future cost avoidance to the Government is in excess of \$13 million.

**\$235 BILLION IDLE  
FROM  
CONSTRUCTION  
PROJECTS**

Review of Unliquidated Obligations -- at the end of fiscal year 1979, unliquidated construction-related obligations for 17 Executive branch departments and agencies were estimated at \$235 billion. Previous individual agency reviews have shown that funds have been set aside for projects that were not feasible, never started, or delayed for various reasons. These reviews have also shown that funds remained set aside after projects were completed. In view of the size of these obligations, and the problems identified in the past, the **Inspector General at HUD** led a Council project to review unliquidated construction-related obligations.

The review determined from a sample of projects inactive for at least 15 months that 16 percent of the projects and 33 percent of the dollars could be deobligated. The review also found weaknesses in:

- o agency accounting and management information systems;
- o standards for measuring goal accomplishment; and
- o the monitoring of performance to assure prompt liquidation of the obligations.

As a result of this review, the Office of Management and Budget directed the eight agencies that accounted for 95 percent of the unliquidated obligations in 1980 to make similar reviews. The agencies are Agriculture, Defense, Education, Energy, EPA, HHS, HUD, and Transportation. They will also recommend necessary corrective actions which OMB and the President's Council will review for Governmentwide implications.

**TIGHTER  
CONTROLS  
NEEDED ON  
\$40 BILLION  
PAYROLL  
SYSTEMS**

Payroll Operations -- 17 departments and agencies of the President's Council operate 66 computerized payroll systems that disburse over \$40 billion annually to 2.1 million Federal employees. The Assistant to the Secretary of Defense (Review and Oversight) has led a Council project to identify areas susceptible to fraud, waste, and abuse within civilian payroll systems.

The project team found that few agencies had conducted comprehensive audits of their payroll systems, and that improved audit coverage and better computer safeguards were needed. The project team also recommended that management increase the emphasis placed on obtaining Comptroller General approval of agency payroll systems; ensure systems operate in accordance with the designs and standards approved by the Comptroller General; and explore opportunities for consolidating payroll systems.

The project team has developed a Governmentwide audit guide for use in conducting reviews of payroll systems within individual agencies. The audit guide focuses on areas that are highly vulnerable to fraud and waste, including those areas where manual intervention into a computer system can occur.

Federal Employees Receiving Government Assistance -- the Inspector General of the Veterans Administration is leading this project which will use computer matching to review over 10 million Federal civilian and military employee and annuitant records to identify those recipients who are improperly receiving Federal assistance and/or have delinquent debts. Eligibility for the Federal programs is based on income; therefore, Federal employment usually precludes entitlement to the benefit. Project participants include the Departments of Agriculture, Education, Health and Human Services, Labor, and Transportation, the Veterans Administration, and the Office of Personnel Management.

The project staff is currently reviewing Federal employee records that have been sent to the Veterans Administration and developing individual agency computer matching plans. All computer matching plans are scrutinized to ensure that Privacy Act provisions are protected.

The computer matching is expected to be completed in July 1982, with recovery actions initiated in August.

Construction Contract Change Orders -- each year Federal agencies administer, either directly or indirectly, construction contracts involving approximately \$33 billion. After a construction contract has been executed, it is frequently modified to accommodate changes in design criteria, correct design deficiencies, recognize changed conditions, or adapt to changes in the sponsoring program. These modifications include both bilateral actions such as supplemental agreements and unilateral actions such as changes ordered by the Contracting Officer.

**CONSTRUCTION  
CONTRACT  
CHANGES OPEN  
TO ABUSE**

Under the direction of the IG at Transportation, members of the President's Council have been identifying potential problem areas in the issuance and management of contract change orders in construction programs.



# **COMPUTER MATCHES RESULT IN RECOVERIES**

On the basis of preliminary results in each of the participating agencies, the project team **expects to recommend strengthening internal controls over the documentation to support change order prices arrived at through negotiations.** Further analysis is required before specific recommendations to the Council on Governmentwide issues can be developed.

Computer Matching -- matching computer files provides significant opportunities for the Inspectors General, Federal program officials, and state and local managers to detect and prevent fraud and abuse in Federally financed operations. Consequently, the Council has undertaken a project headed by the IGs at Labor and HHS designed to:

- o provide for exchange and dissemination of information on matching programs;
- o identify legislative and administrative obstacles to the use of matching and recommend changes;
- o improve Federal/state coordination and cooperation in matching and suggest incentives for increased effort; and
- o identify potential matches with high probability of success and encourage their conduct.

During the past six months, the project has established a clearinghouse for matching activities and has organized a large network of state and Federal agencies and representatives interested in computer matching. In addition, the project has fostered changes to the OMB Guidelines on Computer Matching in order to permit more extensive use of computer matching.

The value of computer matching is demonstrated by the success of many matches including:

- o computer matches that identified underreporting of income by program participants in the Federally financed Food Stamp program resulted in **claims of over \$1 million in one state alone;**
- o interjurisdictional matches between one state's Aid to Families with Dependent Children (AFDC) files and unemployment insurance benefits files of other states revealed **fraudulent reporting;**
- o matches of the Social Security Administration's Master Beneficiary File against the Office of Personnel Management's annuity rolls to identify deceased individuals receiving Social Security benefits revealed **\$4.6 million in overpayments; and**
- o a one-time match in 1979 of disaster loan benefits provided by the Small Business Administration and the Department of Agriculture identified **\$2.3 million in duplicate benefits of which almost \$1.3 million has been collected.**

## STANDING COMMITTEES IMPROVE THE PRESIDENT'S COUNCIL

The standing Committees of the President's Council have also registered accomplishments during the last six months.

**Training Committee** -- this Committee, which is led by the Inspector General at HUD, was established to develop audit, investigation, and executive training programs to fulfill the needs of the IG community. During the past six months, the Committee developed two training courses for auditors and investigators, "Contract and Procurement Fraud" and "The Prevention and Detection of Fraud and Abuse: Hands-On Techniques." Approximately 75 professional staff from the Offices of Inspector General participated in these training programs at the FBI Academy and the Interagency Auditor Training Program Graduate School. The courses will be "taken on the road" to assure full exposure to the IG community.

**FRAUD TRAINING  
COURSE  
DEVELOPED**

A course on "Computer Fraud" is being developed for presentation later this year.

A directory of "Training and Development Sources" was also developed by the Committee to enhance IG efforts to provide viable training programs for their professional investigators.

**Performance Evaluation Committee** -- during the last six months, the Performance Evaluation Committee, under the leadership of the IG at the Environmental Protection Agency, has worked with the OMB to refine the data categories and definitions used in this report. This early focus has been on identifying those measures of output and results which can be readily quantified. A preliminary draft of the Committee's suggestions on measures of direct dollar savings and other quantifiable results was circulated to the Council members for comment in March 1982.

**Investigations/Law Enforcement Committee** -- under the leadership of the Criminal Investigation Division of the FBI, this Committee is developing policies and procedures to improve investigation and law enforcement aspects of the Inspector General program.

**FBI HELPS  
STRENGTHEN  
IG PROGRAM**

Effective referral of criminal matters is key to successful FBI-IG relationships. It requires good communication and agreement on the roles of these two groups in criminal matters. The Council is encouraging the FBI and the statutory Inspectors General to develop formal Memoranda of Understanding that specify agreements on roles, referral procedures, communications, and services to be performed for each other.

To date, Memoranda of Understanding have been completed between the FBI and the Department of Housing and Urban Development and the FBI and the National Aeronautics and Space Administration. The FBI is working with the remaining statutory IGs on additional memoranda.

**Legislation Committee** -- this Committee, under the direction of the SBA Inspector General, has coordinated comments and testimony of PCIE members on significant legislative issues. Council members reviewed House and Senate bills to reform the Federal Criminal Code and draft legislation to vest authority in Federal agencies to impose civil money penalties for false statements and claims. The Legislation Committee followed efforts to amend the Inspector General Act of 1978 to create 3 new Offices of Inspector General and worked with OMB on other proposed amendments. Finally, the Legislation Committee helped coordinate the implementation of the new authority given to the Inspectors General to make awards to Federal employee whistleblowers for disclosures of fraud, waste or mismanagement as established by the Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35).

**Administrative Remedies and Incentives Committee** -- this Committee, chaired by the Director of OPM, has identified actions by Federal employees that are specifically prohibited by law. It has also surveyed all agencies of the President's Council and of the Coordinating Conference on their practices and procedures for utilizing administrative remedies and incentives. Based on analysis of agency responses to the survey, the Committee may recommend changes in laws, regulations, and/or guidance related to administrative remedies and incentives.

### NEW COUNCIL INITIATIVES

The Council has undertaken several new initiatives which should provide additional benefits in the future.

#### PROJECT TO STEM MEDICAL PROVIDER FRAUD

**Health Provider Fraud Project** -- the Federal government is a major financier of health care services, having spent over \$69 billion in 1980. Five departments and agencies account for nearly all of the dollars spent -- the Departments of Health and Human Services, Defense, and Labor, the Veterans Administration, and the Office of Personnel Management -- in programs such as Medicare and Medicaid, CHAMPUS, Federal Workers Compensation, the VA medical system, and in contributions to Federal employee health plans. Inspectors General have found that these programs are vulnerable to fraud and abuse by doctors, pharmacists, and other providers of Federally financed medical assistance. The Inspector General at HHS is leading a Council project to develop and share advanced techniques to identify fraudulent practices and providers in Federally financed health programs.

The project will:

- o share computer screens which cross-check and match specific data among Federal, state, and private agencies and develop new computer screens which will identify provider fraud on a multiple program basis;
- o establish a process to share information on convicted health providers across the government and with private insurers;
- o explore options to stiffen penalties and debar offending providers; and
- o develop profiles of fraudulent providers to assist the targeting of future investigations and program improvements.

**Computer Security** -- in recognition of the critical role of the computer in the administration of Government programs, the Council began a study of computer related fraud and abuse. The study, which is led by the HHS Inspector General, will analyze the nature of computer related fraud and abuse cases in Federal programs, and explore techniques, controls, and resources needed to combat this type of fraud. A survey of Federal agencies' experiences with computer related fraud and abuse was pretested in March 1982 and has been sent out to all agencies of the Council.

**Underreporting of Earned Income in Federally Assisted Benefit Programs** -- several members of the Council have undertaken a project with assistance from state governments to detect recipients in various Federal entitlement programs who have underreported their income. Social Security numbers of food stamp recipients are matched with State Employment Security Agency or Social Security Administration wage data files to identify food stamp households who have underreported their income. This "catalog" of fraud cases is used by other Departments' Offices of Inspector General to determine whether the same people have defrauded their programs.

**STATE  
COOPERATION  
HELPS DETECT  
UNDERREPORTED  
INCOME**

The Inspector General at the Department of Agriculture, who leads this project, has estimated that it costs from one-and-a-half to five cents to detect each dollar of overissuance of food stamps.

**Letter of Credit Review** -- the Council has initiated a review of the letters-of-credit practices of selected Federal agencies. Letters of credit are intended to improve the Federal government's cash management by making it possible for a recipient organization to defer obtaining cash withdrawals from the Treasury until funds are actually needed. Letters of credit can thus reduce Treasury borrowing and result in interest savings. However, audits by Inspectors General have indicated that these potential savings are lost because some grantees are drawing down funds before they are needed.

**Under the leadership of the Treasury Inspector General, the Council will evaluate letters-of-credit procedures.** Recommendations will focus on what can be done at the Federal level to minimize the problem.

**Computer Auditing** -- A major area of vulnerability to large-scale financial fraud has been created by computer-based information and accounting systems used throughout the Federal government. Billions of dollars are disbursed annually through such systems, yet the Government's ability to audit automated data-processing systems and to insure the integrity of these systems has not kept pace.

**Led by the Inspector General at NASA, this project is designed to reduce this vulnerability by developing Governmentwide computer-audit capability.** Efforts will focus on identifying the most effective methods of implementing pilot computer-audit programs to address the most obvious areas of vulnerability. A long term strategy for permanent computer audit capability will also be recommended.

# EXCERPTS OF INSPECTOR GENERAL ACTIVITIES

## EXCERPTS OF INSPECTOR GENERAL ACTIVITIES

The activities of the Inspectors General cover a wide range of audits and investigations focusing on the detection and prevention of waste and mismanagement in the Federal government.

During the six month period covered by this *Report*, the Inspectors General:

- o issued 54,166 audit reports including 28,335 reports by the Defense Contract Audit Agency;
- o opened 13,267 investigations;
- o closed 12,573 investigations; and
- o received 6,502 allegations of fraud, waste, and mismanagement.<sup>1/</sup>

### LOSS PREVENTION

Much of the Inspector General work focuses on the prevention of waste and mismanagement in Federal programs. IG recommendations for strengthening the management of programs and operations can be implemented by a department or agency through legislative initiatives and administrative reforms. While results are often difficult to quantify, Inspector General recommendations have contributed to the improved management of Federal programs and a more efficient distribution of Federal dollars.

- o The Inspector General of the Department of Housing and Urban Development advises the Secretary's Committee on Fraud, Waste and Mismanagement. A working group of the Committee, including the IG, developed recommendations for legislation that would help HUD establish computer matching capabilities. The legislation would require participants to provide their Social Security numbers or employer identification numbers, and to sign releases to verify eligibility. A change to the Social Security Act has been introduced so HUD may have access to State wage data files and impose penalties for fraud at the local level. (H. R. 6020 and S. 2361)

**LEGISLATION TO  
VERIFY ELIGIBILITY  
FOR HOUSING  
ASSISTANCE**

<sup>1/</sup> See Tables 1, 2, and 3 in the Appendices.

- o Because the Comprehensive Employment and Training Act legislation expires at the end of FY 1982, the IG at the Department of Labor made a study with the Department's Employment and Training Administration to review past fraud and waste problems in CETA and make legislative and management recommendations for the successor program. The study group's legislative recommendations included: 1) limiting the number of subgrantees; 2) utilizing existing government structures; 3) centralizing at the grantee level some of the areas most vulnerable to abuse; 4) simplifying eligibility requirements; 5) tying continued funding to program results; and 6) authorizing collection of all debts, regardless of their age. Most of these legislative changes have been introduced in one or more of the pending bills to establish a successor to the CETA program.

#### **IMPROVEMENTS TO MANAGEMENT OF TRIBE'S FINANCES**

- o An audit of an Indian Tribe by the Inspector General at Interior concluded that the Tribe's finances were mismanaged. The Tribe was cash poor and had current liabilities of \$1.8 million (including \$1 million owed to the Federal government), long term debts of \$6 million, and \$960,000 in questioned and disallowed costs from audits of Federal contracts and grants.

As a result of the audit, the Bureau of Indian Affairs has appointed a Federal manager for the Tribe's programs and resources. The BIA has generally agreed with recommendations to: 1) arrange for control over all Tribal and Federal funds, 2) develop a plan for payment of liabilities, 3) provide for proper maintenance of the financial management system, and 4) establish methods to improve program accomplishment.

- o To ensure that he fulfills his legal responsibilities and to assist program managers in administering their programs at the Environmental Protection Agency, the EPA Inspector General conducts compliance audits of costs claimed by construction grantees. The IG focuses his limited audit resources on projects over \$2 million and audits smaller projects on a sample or allegation basis. This approach improves the effectiveness and coverage of compliance audits and still provides an effective control for identifying the most significant instances of possible fraud, waste, or mismanagement in the construction grants program.

#### **COSTS AVOIDED**

During the past six months, the departments and agencies have sustained Inspector General recommendations to avoid spending of almost \$5 billion. Of these costs, approximately \$4.5 billion are projected annual recurring savings, while an additional \$368 million would have been one-time costs. These avoided costs can take a variety of forms ranging from the deobligation of funds to estimates of the money which



can be saved by implementing systems improvements. Funds may then be made available for a more effective and efficient use of the agency's or department's resources.

### COSTS AVOIDED

October 1, 1981 - March 31, 1982

Agencies	One-Time	Per-Annum
Agriculture	\$135,597,045	\$128,000,000
Agency for International Development	6,569,804	4,580,000
Commerce	36,784,197	257,011
Community Services Administration	146,845	N/A
Defense	3,538,216,869 <u>1/</u>	169,183,935 <u>1/</u>
Education	500,000	N/A
Energy	30,115,000	17,330,000
Environmental Protection Agency	8,723,055	N/A
General Services Administration	43,322,292 <u>2/</u>	4,600,000
Health and Human Services	129,590,000	1,000,000
Housing and Urban Development	N/A <u>3/</u>	N/A <u>3/</u>
Interior	4,485,000	2,190,000
Labor	426,777 <u>4/</u>	2,384,977 <u>4/</u>
National Aeronautics and Space Administration	59,961,000	- 0 -
Small Business Administration	7,350,000	- 0 -
State	N/A	4,400,000
Transportation	426,650,620	29,013,744
Veterans Administration	113,798,563 <u>5/</u>	5,346,445 <u>6/</u>
<b>SUM</b>	<b>\$4,542,237,067</b>	<b>\$368,286,112</b>

N/A - Data not available.

Sum - The sum represents the aggregate amount reported by agencies providing data.  
The total of all agencies would be greater.

1/ thru 6/ See Technical Notes in Appendix.

Examples of the sustained audits which resulted in the \$4.9 billion costs avoided follow:

- o The Rural Housing Loan Program, administered by the Farmers Home Administration, U. S. Department of Agriculture subsidizes mortgage interest rates for eligible home buyers. The **USDA Inspector General** reviewed a sample of 200 borrowers' files and analyzed the program's administrative procedures. The sample disclosed a 52% error rate through either falsification of records provided by the participants or computational errors in the processing office. As a result of these findings, the IG recommended that: 1) participants be required to

**\$128 MILLION TO  
BE AVOIDED IN  
RURAL HOUSING  
LOANS**

renew their mortgage agreement annually instead of every two years as permitted by previous renewal provisions and, 2) participants be required to report any changes in income to the processing office immediately rather than waiting for the agreement to expire. USDA has accepted and is implementing these recommendations. The estimated costs avoided of \$128 million annually will fluctuate with the changes in interest rates for home mortgages and with management's speed in implementing the recommendations.

- o The Department of Commerce's IG completed an extensive study of the Trade Adjustment Assistance Program and found that \$91 million of the \$181 million out-standing loans were in default or delinquent. The IG made several recommendations to the International Trade Administration which has assumed oversight responsibility for this program from the Economic Development Administration. The IG's follow-up review found that the loan requirements have been tightened considerably, causing \$25.4 million of loan applications to be rejected. Based on default rates and historical recoveries, the IG computed a cost avoidance of \$5.8 million.

**\$399 MILLION  
COULD BE USED  
FOR OTHER  
HIGHWAY  
PROJECTS**

- o The Inspector General at the Department of Transportation realized major cost avoidances by recommending deobligations of funds for highway construction projects. States in four regions had maintained excess Federal-aid highway funds of \$399 million which should have been released and made available for other highway construction projects. As a result, highway construction was delayed and, concurrently, the purchasing power of the excess obligations was declining. The Federal Highway Administration agreed with the IG to take action to: 1) review all completed and inactive projects to identify funds that could be released and request the states to deobligate the funds, 2) monitor more closely the use of obligational authority by the states, and 3) correct project status codes presently in error and maintain these codes on a current basis.
- o A review of the plywood repackaging program by the Inspector General at the General Services Administration disclosed that GSA purchases commercially packaged plywood, repackages the plywood, and ships it to other facilities for ultimate sale to Federal customers. The Government was paying between \$.71 to over \$10 per sheet more for plywood repackaged at the GSA facility than for comparable material purchased through local wholesale sources. Additional savings would occur if agencies purchased less expensive, but still satisfactory, grades of plywood. GSA adopted the auditor's recommendations and closed the repackaging facility as of May 10, 1982, avoiding costs of \$4.6 million annually.

- o The **Inspector General at the National Aeronautics and Space Administration** recommended joint development of software systems by several NASA centers to reduce development costs and to provide increased sharing of learned efficiencies. **Joint redesign of payroll and related systems being separately developed at three NASA centers could save as much as \$500,000 or approximately one-half of the development costs.** In response to the Inspector General's recommendations, NASA is performing cost benefit studies for joint development of payroll systems for the three NASA centers. An intercenter committee has also been established to study the optimum approach to development and maintenance of agency-wide systems.
- o An audit of an Army air defense unit's annual training program concluded that logistics costs could be significantly reduced. The **Army Audit Agency determined that the unit could save about \$4 million annually by using a nearby Marine Corps facility rather than transporting personnel and equipment 1,800 miles to an Army range. Management agreed and stated that an interservice support agreement would be completed so that use of the Marine Corps facility could begin in Fiscal Year 1982.**
- o The Department of Energy was not receiving timely reports of precious metal inventories and the DOE laboratories and offsite contractors were not always safeguarding or keeping track of such precious metals as platinum, gold, and silver in their custody. On the basis of audit findings, the **DOE Inspector General estimated that more than \$430,000 in annual savings could be realized if the Department approved a pooling program that would provide contractors with recycled precious metals at prices considerably below market prices.** Remedial action based on most of the IG's recommendations has been taken or initiated. The Department's pooling program has been expanded to include all precious metals.
- o The **Agency for International Development Inspector General** audited a road and earthworks building/rehabilitation program in South Asia to which the U. S. contributed about 90,000 metric tons (MT) of wheat annually. The audit disclosed that wheat had been diverted to unauthorized uses; future AID contributions of wheat were too high; and the sponsoring American private voluntary organization lacked sufficient authority to monitor and manage the wheat contributions effectively. AID management moved swiftly to address the deficiencies reported by the IG. As a result, **AID determined to reduce its wheat contributions by 20,000 MT annually, for annual savings of about \$4.6 million beginning in fiscal year 1983. In addition, the host government has agreed to replace the missing wheat (recovering about \$4.7 million to AID), and to strengthen the role of the**

**RECYCLING  
PRECIOUS METALS  
SAVES \$430,000  
PER YEAR**

**AID SAVES  
\$4.6 MILLION  
PER YEAR**

**American program sponsor.**

- o **The Inspector General at the Veteran's Administration recently completed an audit of eight planned replacement domiciliaries. The audit disclosed that renovation of existing buildings, rather than new construction, could save \$76.6 million and provide more beds than the planned new construction.** In addition, the audit found that the program's mandate to provide a home for aging, ambulatory veterans with incidental medical services needed to be clearly defined. Domiciliaries that had recently been constructed were fully convertible to nursing home care units which reflected an upgrading of the mission to a higher and more costly level of care. The IG recommended that renovation alternatives be considered and that the mission of the program be clearly defined. The Chief Medical Director, in concurrence with the IG recommendations, has agreed to re-evaluate the planned replacement domiciliaries and to redefine the program's mission.
- o **The cost of borrowing by the U. S. Treasury will decrease by approximately \$4.4 million by changing the method of providing contributions to activities of the United Nations High Commissioner for Refugees (UNHCR). A State Department Inspector General recommendation, cooperative effort between the Bureau of Refugee Programs and the Inspector General's Office, and additional information from UNHCR, has resulted in a funding system which is similar to a letter-of-credit system but which provides greater financial control. The new system will more closely relate to UNHCR's cash disbursements. U. S. contributions will be stretched to over 18 months and payments will be made at the end of the quarter in which the disbursement occurs.**
- o **A computer match of the Health Care Financing Administration's records of deceased Medicare patients against the Social Security Administration's Master Beneficiary Records was initiated in August 1981 by the HHS Inspector General. Approximately 6,000 cases were identified where benefits were being paid to individuals who were deceased. As a result, checks no longer are being sent to these deceased beneficiaries. The projected savings from this project are \$20 million this year and even greater amounts in subsequent years. After all verification is completed it is expected that the amount which had been paid out inappropriately will be over \$30 million. Recoveries to date are: \$4.4 million in uncashed Treasury checks; \$1.6 million in remittances as repayments; and \$112,000 in recoveries of other agencies' funds such as VA and Railroad Retirement. U. S. Attorneys have expressed interest in prosecuting over 200 cases. To date, there have been seven convictions; indictments were returned in eight other cases.**

### MANAGEMENT COMMITMENTS TO SEEK RECOVERIES

Agency management is responsible for the actual recovery of monies owed to the Government based on Inspector General findings and recommendations. During this six month period, **the IGs reported management commitments to seek recoveries of \$900 million.** Management may recover this amount by collecting from the audited organization or individual, or by offsetting existing and future contracts and grants. In addition, there are negotiated reductions in contract costs and fees, whether or not payment has been made to the contractor in question.

### MANAGEMENT COMMITMENTS TO SEEK RECOVERIES

October 1, 1981 - March 31, 1982

#### Agencies

Agriculture	\$55,554,066
Agency for International Development	7,848,937
Commerce	6,464,750
Community Services Administration	13,149,822
Defense	\$422,985,541 <u>7/</u>
Education	32,432,938
Energy	5,340,800
Environmental Protection Agency	38,535,511
General Services Administration	2,474,290 <u>8/</u>
Health and Human Services	102,632,862
Housing and Urban Development	93,359,426
Interior	10,288,000
Labor	23,236,139
National Aeronautics and Space Administration	4,173,000
Small Business Administration	12,890,683
State	44,639
Transportation	54,361,380
Veterans Administration	1,889,181

**SUM** **\$887,661,965**

*N/A - Data not available.*

7/ thru 8/ See Technical Notes in Appendix.

The following are cases which resulted in monies referred for recovery.

- o In one state, the **Health and Human Services Inspector General** found that during a five-year period all abortion services, whether performed for medical or therapeutic reasons, were claimed as family planning costs under the medicaid program and reimbursable at a

90% Federal financial participation rate. This was an incorrect assumption since some abortions were performed for medical reasons. Medical abortions are reimbursable at only a 50% rate. In addition, the state could not document that any of these abortions were specifically performed for family planning. **Auditors recommended and the Health Care Financing Administration concurred with a financial adjustment of \$38.4 million.**

- o The Department of Transportation's Federal Highway Administration (FHWA) policy on treatment of insurance proceeds on Emergency Relief (ER) projects does not require prompt credit of these funds to a project. **The Inspector General at Transportation found that a state was permitted to invest \$30.5 million during project construction and use some \$5.5 million of the interest earned on this investment as state matching funds.** FHWA agreed to develop a process by which the insurance proceeds and accrued interest held by the state will be credited to the Federal ER funds. Furthermore, it will emphasize in future approvals that insurance proceeds must be credited to projects promptly.

**\$6 MILLION IN  
EDUCATION  
FUNDS  
DISALLOWED**

- o An audit of a general Vocational Rehabilitation program in one state by the **Department of Education Inspector General** disclosed that the state claimed about \$6 million in unallowable costs. Among other things, the auditors reported: improper use of prior year grant project funds, invalid obligations of unused funds from a prior year, unallowable direct costs and rental costs, and inappropriate write-off of nonexpendable equipment costs. **The Office of Special Education and Rehabilitative Services concurred with the Inspector General's audit findings and directed the state to make appropriate financial adjustments of about \$6 million.**
- o An audit by the **Environmental Protection Agency Inspector General** of a grant to a city water and sewage department questioned litigation settlement costs claimed by the grantee as a legitimate expense under the grant agreement. The settlement costs resulted from a court ruling against the city because the city refused to give prospective construction contract bidders significant information which they could have used to structure more realistic bids. **EPA supported the auditor's recommendation that \$1.6 million be disallowed on the basis that the city failed to adequately administer the grant.**

**\$24 MILLION IN  
GUARANTEE  
LOANS RECALLED**

- o The **Department of Agriculture IG** performed a comprehensive review of all business and industrial loans made by the Farmers Home Administration in Oklahoma. The IG found that intangible assets, appraisal surpluses, and subordinated debts were accepted as equity; that refinancing was accomplished without justification; that lenders had not obtained sufficient collateral; and, that there were conflicts of interest between borrowers and lenders. **FmHA agreed to monitor for**

early collection or cancellation of the guarantee amounts totalling over \$24 million.

- o An audit by the Inspector General, Department of Labor, of a midwestern city showed that the city failed to carry out its responsibility as a Comprehensive Employment and Training Act prime sponsor, to resolve or to take action to collect \$2.9 million of costs that were questioned in audits of its subgrantee. The Labor Department has disallowed the costs and referred the entire amount for recovery from the prime sponsor.
- o An audit of the Foreign Military Sales program by the Air Force Audit Agency determined that one foreign country had not been billed for two programs. One finding showed that costs totalling \$1.2 million for a 1979 jet engine improvement program had not been billed. Management agreed and processed that bill during that audit. A second finding disclosed that this same country had not been billed for \$992,000 in personnel costs incurred during the period February 1979 through September 1981. Management agreed to initiate billing action for these costs.

### INVESTIGATIONS

Inspector General activities may result in civil actions, penalties or fines, settlements, recoveries, indictments, and/or convictions. For this reporting period, IG activities -- including investigations -- resulted in:

- o 925 indictments and 1,050 convictions;
- o 2,876 referrals to prosecution agencies;
- o 273 suspensions and debarments of contractors and grantees;<sup>1/</sup> and
- o \$39.8 million in recoveries, settlements, fines, and penalties.

<sup>1/</sup> See Tables 4, 5, and 6 in Appendices.

## INVESTIGATION RECOVERIES

October 1, 1981 - March 31, 1982

*Agencies*

Agriculture	\$6,292,962
Agency for International Development	394,895
Commerce	8,908
Community Services Administration	- 0 -
Defense	N/A
Education	- 0 -
Energy	564,926
Environmental Protection Agency	- 0 -
General Services Administration	N/A
Health and Human Services	6,285,048
Housing and Urban Development	725,000
Interior	210,000
Labor	397,036
National Aeronautics and Space Administration	358,940
Small Business Administration	1,170,613
State	21,348
Transportation	36,048
Veterans Administration	84,208
<b>SUM</b>	<b>\$16,549,932</b>

*N/A - Data not available.*

*Sum - The sum represents the aggregate amount reported by agencies providing data.  
The total of all agencies would be greater.*

The following selected investigations demonstrate the diversity among these kinds of IG activities.

**PLEA AGREEMENT  
RECOVERS  
\$3.7 MILLION**

- o The Inspector General, Department of Education, conducted an investigation which lasted over one year and uncovered a fraudulent scheme involving a large U.S. corporation. The company pled guilty to three counts of false statements and one count of mail fraud. The company admitted that it lied to the Government in its handling of default claims submitted under the Guaranteed Student Loan Program for correspondence courses conducted through a subsidiary company. In addition to an already paid fine of \$31,000, the investigation resulted in the conviction of one employee and acquittal of another. The plea agreement stipulated that the corporation reimburse the Department of Education \$3,750,000 for improper default claims. This sum has been paid and the sentencing of the convicted employee is expected at the end of June.



**BIDRIGGING  
INVESTIGATIONS  
RESULT IN FINES  
FOR \$9.9 MILLION**

- o Bidrigging continues to be one of the **Department of Transportation Inspector General's significant areas of investigation**. Joint IG and Department of Justice, Antitrust Division, investigations to date have primarily involved Federal Highway Administration funded construction projects in 17 states. **Investigations in 9 of the 17 states have resulted in 134 indictments, 99 convictions, \$9.9 million in fines, 29 years in prison sentences, and 52 debarments.** Analysis of contractor bidding patterns before and after the IG investigations shows a strong correlation between the success of this activity and the reduction of bid prices as compared with engineering estimates.
- o A Federal Grand Jury returned a 20-count indictment charging three individuals and two corporations with conspiracy, filing of false statements, and false claims involving construction contracts associated with the Space Shuttle. The indictment is the result of three years of investigative effort by the **National Aeronautics and Space Administration IG and the FBI**. To date, one corporation has entered a guilty plea to one count of violating Title 18 U.S.C. 1001 (false statements) and was sentenced to pay the maximum fine of \$10,000.
- o With the cooperation of the **Community Services Administration (CSA) IG**, the FBI conducted a three year investigation which resulted in the **conviction of executives of a CSA grantee in Gainesville, GA. for mail fraud and making false statements to the government.** The grantee had collected \$485,000 from program participants but only \$41,000 was reflected on the grantee's books. The defendants inflated the number of children enrolled in the Community Service program and the number of meals served to the children on monthly reports submitted to Federal offices through the U.S. mail. The grantee administrator and spouse were sentenced to a total of 11 years in prison, 2 years probation, and ordered to repay \$300,000 in Federal funds. Five other former employees who pled guilty and testified against the defendants were also sentenced. The grantee is now going out of business.
- o An **Air Force Office of Special Investigations** conducted an investigation into allegations that a corporation providing maintenance for military family housing units was submitting altered and duplicated invoices for material costs. The investigation and a related audit disclosed \$11,867 in duplicate payments. The corporation was also unable to account for some Government purchased materials. The president of the corporation was convicted in U.S. District Court of conspiracy to defraud the Government and eleven counts of filing false claims. He was sentenced to 5 months in jail and 31 months probation. Another employee received 30 days in jail and 23 months probation. **The corporation was ordered to pay**

**\$25,837 in damages, and, under the Federal Tort Claims Act, owes the U.S. double the damages incurred plus \$2,000 for each false claim submitted.**

**VA RECOVERS  
\$945,000**

- o As the result of a Veterans Administration investigation, the owner of a barber school in Puerto Rico pled guilty to conspiring to defraud the United States by engaging in a scheme involving tuitions paid to veterans. In a subsequent civil action, the defendant was judged indebted to the U.S. for \$1.2 million. The Court has ruled now that the U.S. has an enforceable interest in two condominiums purchased by the defendant with monies obtained by the fraudulent scheme. In addition, the United States is entitled to all rents and profits from the condominiums. The VA, which previously recovered \$495,000 from the defendant, will recover an additional \$450,000 as a result of these court decisions.
- o An investigation conducted by the Small Business Administration Inspector General disclosed that two individuals operating a dental health center in Kentucky received an SBA guaranteed loan of \$300,000 on the basis of false statements made to the bank and the SBA. It was also established that after the loan was approved, the principals submitted documents purporting to be invoices of equipment purchases, but which were actually only quotations, to induce the bank to release part of the loan proceeds to them. Furthermore, they, along with a contractor, overstated construction costs by over \$57,000 in order to obtain more than \$15,000 for themselves. The principals pled guilty to making false statements to the Government. Each was given a three year sentence. The contractor pled guilty and received an 18 month suspended sentence and was placed on probation.
- o A former Mine Safety and Health Administration (MSHA) coal mine inspector was sentenced to 3 years in prison and fined \$5,000 after being found guilty of extortion and bribery, and a coal mine corporation was fined \$20,000 for paying a bribe. An investigation by the Labor IG found that the company paid the inspector for possible advance notice of surprise inspections planned by MSHA. Initially, the inspector used his power as a public official to extort \$800 from the mine, which he regulated. The company then took the initiative to continue the relationship and paid an additional \$450.

The result of these court actions is illustrated in the table on the following page:

**LITIGATION: RECOVERIES, PENALTIES, SETTLEMENTS****October 1, 1981 - March 31, 1982**

<i>Agencies</i>	<i>Fines &amp; Penalties</i>	<i>Restitutions Ordered</i>	<i>Settlements</i>
Agriculture	\$948,711	N/A	N/A
Agency for International Development	- 0 -	- 0 -	\$216,000
Commerce	32,000	\$7,695	- 0 -
Community Services Administration	91,516	383,307	- 0 -
Defense	380,367	1,190,425	4,647,140
Education	72,500	109,504	3,750,000
Energy	500	6,337	- 0 -
Environmental Protection Agency	- 0 -	- 0 -	- 0 -
General Services Administration	219,500	132,333	561,000
Health and Human Services	467,863	542,836	N/A
Housing and Urban Development	188,942	- 0 - <u>9/</u>	- 0 - <u>9/</u>
Interior	3,000	48,500	- 0 -
Labor	280,852	N/A	N/A
National Aeronautics and Space Administration	- 0 - <u>9/</u>	- 0 - <u>9/</u>	- 0 - <u>9/</u>
Small Business Administration	32,211	1,002,243	- 0 -
State	1,500	- 0 -	- 0 -
Transportation	4,506,000	2,913,713	N/A
Veterans Administration	10,200	453,509	74,965
<b>SUM</b>	<b>\$7,235,662</b>	<b>\$6,790,402</b>	<b>\$9,249,105</b>

*N/A - Data not available.**Sum - The sum represents the aggregate amount reported by agencies providing data.**The total of all agencies would be greater.**9/ See Technical Notes in Appendix.*

# DESIGNATED AGENCY FOLLOWUP OFFICIALS

## DESIGNATED AGENCY FOLLOWUP OFFICIALS

Agency managers must work with the Inspectors General to achieve the Administration's objective of improving the Federal government by reducing waste and mismanagement. To assure that the benefits of the Inspector General program are fully realized, the **Administration places great emphasis on management's responsibility to resolve audit recommendations and implement corrective actions.** The designation of agency followup officials last spring placed personal responsibility for audit resolution and followup on senior management officials.

## PROGRESS ON PROMPT RESOLUTION

The departments and agencies have continued to recognize the importance of audit resolution and followup to the effective management of Government. As reported in the second *Summary Report* (December 1981), the value of older unresolved audits was reduced from over \$1.5 billion reported by the General Accounting Office in January 1981 to less than \$200 million reported by the agencies in September 1981. During the first six months of Fiscal Year 1982, the value of unresolved audits over six months old remained at approximately the same level (\$200 million). **The number of audits associated with these monetary recommendations, however, was significantly reduced from over 2,400 on September 30, 1981, to less than 400 audits on March 31, 1982.** This progress, as illustrated in the table on the following page, shows that the departments and agencies continue to place a high priority on audit resolution.

## UNRESOLVED AUDITS

Agency	Over 12 Months as of 1/81 per GAO	Number*	Over Six Months as of 9/30/81	Number*	Over Six Months as of 3/31/82
	Value millions of \$		Value millions of \$		Value millions of \$
Agriculture	\$98.0	29	\$36.4	6	\$0.8
AID	N/A	19	12.0	35	N/A
Commerce	20.3	287	56.9	16	7.9
Defense	1,027.4 <sup>10/</sup>	1	1.5	1	0
Education	(in HHS)	1,804	17.4	164	44.1
Energy	6.9	55	2.0	22	0.5
EPA	35.9	54	30.1	38	65.7
GSA	40.0	0	0	11	1.6
HHS	160.5	0	0	1	0.2
HUD	0	124	8.3	8	1.5
Interior	6.2	39	5.7	29	1.9
Justice	5.0	0	0	22	1.0
Labor	182.8	0	0	3 <sup>11/</sup>	0.3
NASA	22.4	5	2.6	3	1.9
OPM	17.0	3	3.3	1	0.06
SBA	0	0	0	2	0.01
State	0	3	0	1	2.7
Transportation	N/A	12	14.8	28	54.8
Treasury	7.2	0	0	5	5.1
VA	1.8	0	0	1	0 <sup>12/</sup>
Totals	\$1,631.4	2,435	\$191.0	379	\$200.47

\*Includes unresolved audits with nonmonetary findings.

N/A - Data not available.

<sup>10/</sup> thru <sup>12/</sup> See Technical Notes in Appendix.

## INCREASES IN SUSTAINED QUESTIONED COSTS

Management decisions to sustain questioned costs and other monetary recommendations of the Inspectors General represent a major step to actual recoveries and cost avoidances. It is in the Government's interest to have these determinations made promptly and fairly -- sustaining the recommendations of the IGs whenever the evidence and reasonableness of the findings are persuasive. During the six months October 1, 1981, through March 31, 1982, management officials sustained approximately 60 percent of the questioned costs and recommendations made by the

Offices of Inspector General. The total amount of sustained costs reported by the agency followup officials for the six months ended March 31, 1982, was \$4.6 billion as contrasted to the \$4.1 billion reported by the departments and agencies for the six months ended September 30, 1981. Although the value of unresolved audits has remained about the same, the value of audits resolved in favor of the Government has increased.

### Questioned Costs Sustained

	<i>Six Months Ended</i> <i>9/30/81</i>	<i>Six Months Ended</i> <i>3/31/82</i>
USDA	\$92,206,694	\$55,600,000
AID	1,990,015	7,848,937
Commerce	10,854,000	34,245,782
DOD	3,450,348,000	3,992,953,490
Education	28,000,000	32,432,938
Energy	7,806,700	4,673,300
EPA	80,900,000	27,589,891
GSA	12,415,000	38,620,507
HHS	60,600,000	102,632,862
HUD	92,771,000	66,314,426
Interior	28,294,962	6,800,00
Labor	103,216,944	23,236,139
NASA	71,800,000	152,000,000
SBA	1,600,000	17,572,706
State	973,104	4,400,000
Transportation	51,000,000	54,361,380
VA	2,417,000	1,889,181
<b>Total</b>	<b>\$4,097,196,419</b>	<b>\$4,623,171,539</b>

The following are examples of management's agreement with auditors' recommendations on significant audits.

- o The management of the Public Health Service (PHS) sustained all the costs questioned by auditors on an initial operations grant to a mental health center in West Virginia. Auditors found that the center's accounting system failed to meet Federal standards and the center could not identify or control PHS grant funds. In reaching a final determination, management asked the auditors if other costs were incurred which could be substituted for the amounts questioned. Because of the condition of the records, the auditors could not render an opinion. Management concluded that, given the circumstances where the records were not competent to demonstrate accountability or show benefit from the grant, the costs must be

disallowed. **The Public Health Service has established an account receivable for \$260,141.**

- o AID management, after protracted negotiations with a Central African government, resolved a FY 1979 audit which revealed substantial improprieties in the recipient government's management of local currency proceeds from the sale of rice provided by the AID Food for Peace Program. The audit disclosed that about \$2.5 million had not been deposited in a special account established to manage these funds and control their use for mutually agreed to development purposes. The Government agreed during this semiannual reporting period to deposit all Title 1 fund reflows into the special account. To date, such deposits have represented an amount more than double the original undeposited local currency sales proceeds. **This new income is significantly augmenting AID's ability to assist the rural poor in that country, while signaling the host government's recommitment to its own development goals.**
- o An Air Force audit recommended redetermining requirements supporting a planned acquisition of \$14 million for pylon struts on the C-141 aircraft. The auditors identified an estimated \$8.8 million in potential cost avoidances. **Air Force management reviewed the auditors' findings and subsequently reduced the planned acquisition by over \$12.9 million.**

#### **STRENGTHENING AUDIT RESOLUTION AND FOLLOWUP**

Despite these significant achievements, the resolution of audit recommendations and audit followup procedures still need to be strengthened by the departments and agencies. In the fall of 1981, the Office of Management and Budget conducted an assessment of the documentation for audit resolution systems. That assessment showed that agencies made **significant strides in revising audit resolution and followup systems and had incorporated important attributes into the system, such as establishing procedures for resolving disagreements between auditors and program officials and issuing semi-annual reports to the heads of agencies.** However, the assessment also revealed several **significant deficiencies still remaining:**

- o **lack of a clear requirement for audit resolution within six months;**
- o **failure to track nonmonetary findings and recommendations;**
- o **lack of sufficient detail in the required reports to agency heads; and**
- o **failure to require trend analyses of findings and the disposition of those findings.**



The Administration is taking steps to strengthen audit resolution and followup in response to these findings and to reports by the General Accounting Office on audit resolution. It is also revising the guidance to all departments and agencies to:

- o specify the role of the designated audit followup officials and the IGs;
- o clarify the applicability of audit resolution and followup to regulatory and preaward audits;
- o emphasize the importance of monitoring implementation of resolved audit recommendations; and
- o promote improved accounting and collection controls for amounts due the Government as a result of claims arising from audits.

In addition, the OMB is working with the Departments of Health and Human Services and Labor, the General Services Administration, and the GAO to evaluate the effectiveness of audit resolution decisions made in the Government. The evaluation will result in improved guidance to the departments and agencies on audit resolution.

The continued emphasis on improvements to audit resolution and followup complements the strengthened Inspector General program and should help assure effective and efficient operation of Federal programs.

# **RELATED ADMINISTRATION EFFORTS TO REDUCE FRAUD, WASTE, AND ABUSE**

## **RELATED ADMINISTRATION EFFORTS**

**The Administration's focus on improving Government management is not limited to the Inspector General program or the President's Council on Integrity and Efficiency.** Several additional Governmentwide management and system improvement projects have been undertaken to strengthen controls and improve the effectiveness of Federal agencies. These initiatives include:

- o developing solutions to Governmentwide management and systems deficiencies in an interagency forum of the Assistant Secretaries for Management;
- o improving the quality of program operations by implementing strong internal control systems in each of the departments and agencies;
- o strengthening Federal efforts to collect debts and other monies owed the Government; and
- o eliminating abuse of Federal travel.

## **ASSISTANT SECRETARIES FOR MANAGEMENT GROUP**

An era of reduced employment and fewer resources challenges the managers of the Federal government to work more effectively and efficiently wherever possible. The Assistant Secretaries for Management, who are the top management officials in Federal departments and agencies, are responsible not only for improving the delivery of such services as personnel management, procurement, and financial management, but also for assisting managers in improving the administrative aspects of program operations.

The potential for Governmentwide improvements in these areas prompted the establishment of the **Assistant Secretaries for Management Group (ASMG)** in April of 1981. Specifically, the ASMG:

- o **Studies Governmentwide management problems;**
- o **Seeks resolution of interagency problems;**
- o **Provides follow-up effort to the work of the President's Council on Integrity and Efficiency, the Inspectors General, and the General Accounting Office; and**

- o Assures that the policies of the central management agencies (OMB, OPM, and GSA) are coordinated and workable.**

During the past year the ASMG has undertaken several projects to address Governmentwide management problems including:

- o the development of internal control models for the acquisition of long-term training; office machines, furniture and other equipment; and consulting services;**
- o the improvement of procedures for the processing of EEO complaints; and**
- o the establishment of goals and priorities for training programs for Federal employees.**

To appreciate the magnitude of such problems, one can look at the use of consulting services by the Government. Expenditures for consulting and related services currently average about \$1.5 billion per year. There have been criticisms of these expenditures, including:

- o a lack of justification or sufficient definition of the requirements for the use of consulting services;**
- o use of nonnegotiated and sole source contracts which precluded competition; and**
- o a rush of "year-end spending" on questionable consulting service contracts.**

The ASMG developed a model control system for consulting services to assist agencies in establishing, improving, and evaluating their current consulting services systems.

**The complementary role of the individual Assistant Secretaries and the ASMG to the work of the Inspectors General and the PCIE led to a meeting of the ASMG and PCIE in December 1981 to develop constructive approaches to jointly reduce waste and mismanagement and develop system improvements.**

As a result of this meeting, each departmental Assistant Secretary and Inspector General identified at least one project to be performed jointly within their agency. Most of these projects deal with broad agency problems or concerns, particularly the development of systems of internal controls for program and administrative activities.

## **INTERNAL CONTROLS**

The Office of Management and Budget, working closely with department and agency officials, developed an approach for strengthening Federal internal control systems. It entails:

- o increasing agency management's awareness of the need for effective internal control systems;
- o developing materials and training to support the improvement of internal controls;
- o bringing about the design and implementation of strong internal control systems throughout the Government; and
- o bringing about adequate oversight and evaluation to ensure that controls remain strong.

This initiative reflects the concern of the Administration that preventive measures be implemented that can control fraud, waste and abuse before it happens. This preventive approach will improve the quality of program operations and significantly reduce the vulnerability of Federal programs to abuse and mismanagement. In addition, the implementation of internal control systems places the burden of responsibility squarely on management officials in the departments and agencies.

In specific terms, agencies are required to:

- o direct, plan, and perform vulnerability assessments for all agency activities; and
- o conduct individual internal control reviews based on the results of the assessments and undertake corrective agency action, as necessary, to improve the design and functioning of internal controls.

To provide additional assistance, OMB has developed discussion papers on likely areas of mismanagement and abuse including ADP, grants, procurement, debt collection, cash management, and payment systems. Internal control models are being developed for several administrative and management areas beyond those undertaken by the ASMG. Examples are entitlement programs and space acquisition and utilization.

### **DEBT COLLECTION**

**The President has established the goal of collecting an additional \$1.5 billion in overdue debts as a high priority in Fiscal Year 1982.** The Office of Management and Budget through its Debt Collection Project staff has received debt collection plans for 23 agencies that account for over 95 percent of the debts owed the Government. OMB is actively monitoring each department's and agency's implementation of its plan.

As a result of this increased emphasis, several actions have been taken to improve agency debt collection practices. For example:

- o **The Veterans Administration (VA) will generally no longer guarantee home loans for veterans who are delinquent in repaying other debts owed the VA.** To accomplish this, private lenders have been instructed to check with VA prior to approving any VA guaranteed home loans.
- o **The Department of Housing and Urban Development (HUD) is moving quickly to implement the recently enacted Uniform Foreclosure Law.** This will eliminate the lengthy delays in the judicial process that HUD experienced in the past when foreclosing on defaulted multi-family loan projects. HUD is also training 500 loan servicers in the review of annual financial statements to ensure that project funds are not being diverted by debtors for unauthorized purposes.
- o **The Public Health Service (PHS) is making significant modifications to its automated early warning system which monitors the financial condition of medical facilities receiving PHS loans.** The new system will increase PHS's ability to quickly identify problem areas so that technical assistance can be provided promptly to prevent delinquencies and defaults from occurring.
- o **The Social Security Administration is establishing 44 pilot collection centers in its payment service centers and field offices to concentrate on the prevention and recovery of delinquent debts.** The units are developing tactics for locating and collecting from delinquent debtors through mailing, telephoning and personal visits. The units are also field testing criteria for determining the collectability of cases so that they can target their efforts to the more collectable accounts.

In addition to these specific agency initiatives, the Office of Management and Budget is working closely with the Treasury Department to expand and improve the reporting of information on debts owed the Government. A newly initiated reporting system collects data on:

- o total receivables;
- o amount and age of delinquent receivables;
- o write-offs;
- o interest assessed and collected on delinquent accounts; and
- o the number and value of accounts referred to the General Accounting Office and the Justice Department for further collection.

The Office of Management and Budget will use the data collected under the new system to monitor agency progress in achieving savings included in the budget. OMB will also track the performance of individual departments and agencies, as well as the Government in general, in reducing outstanding receivables and delinquent and defaulted debt.

## TRAVEL MANAGEMENT

As reported in the last *Summary Report*, the Administration has initiated improvements to the \$4 billion per year Federal travel program in order to reduce spending for excessive and unnecessary travel.

Recent studies by several agency Inspectors General, the General Accounting Office, and the Interagency Travel Management Improvement Project have identified weaknesses in agency travel authorization policies and procedures. Reports by the departments and agencies have confirmed that excessive travel is prevented most effectively by increasing management attention to the need for each trip.

As a result of these findings, **OMB has recently issued directions to all executive branch agencies to tighten controls over the authorization of Government travel.** The principal features of these directions include:

- o **the use of general travel authorizations, which permit entire agencies or groups of employees to travel without management review of the necessity of each trip, is to be discontinued.**
- o **officials who authorize travel must consider alternatives to travel, such as teleconferences.** They also must be aware of employee plans that include taking annual leave in conjunction with travel, and ensure that the most cost effective means of travel are used;
- o **travel authorizations and vouchers have to indicate the purpose of travel; and**
- o **the issuance and review of travel advances is to be tied more closely to the travel authorization process.**

In addition to these changes, the directions provide clear guidance for the use of Government travel authorizations:

- o **unlimited open travel authorizations should be permitted only for department or agency heads and principal assistants approved by the agency head or deputy;**
- o **limited open authorizations can be issued to employees whose work requires frequent travel, but these must be reviewed regularly -- travel for all other employees is to be authorized on a trip-by-trip basis; and**
- o **certain kinds of travel which tend to be relatively expensive, including conferences, training sessions, relocation travel, entitlement travel (such as trips home for those overseas), and all nonroutine foreign travel, should only be approved on a trip-by-trip basis.**

## APPENDICES



**DATA TABLES**

**REPORTS ISSUED**  
**October 1, 1981 - March 31, 1982**

<i>Agencies</i>	<i>Audits Audits by IG</i>	<i>Audits for which Cognizance is Provided</i>	<i>Audits by Others</i>	<i>Total</i>
Agriculture	327	6	202	535
Agency for International Development	98 <u>13/</u>	0	0	98
Commerce	75	9	1,127	1,211
Community Services Administration	14	0	1,494	1,508
Defense	38,622 <u>14/</u>	0	N/A	38,622
Education	144	1	2,309	2,454
Energy	31 <u>15/</u>	1	608	640
Environmental Protection Agency	111	1	589	701
General Services Administration	328 <u>16/</u>	0	11	339
Health and Human Services	603 <u>17/</u>	0	1,804	2,407
Housing and Urban Development	335	13	2,698	3,046
Interior	131	9	215	355
Labor	47	72	341	460
National Aeronautics and Space Administration	17	0	329	346
Small Business Administration	269	0	17	286
State	11	3	10	24
Transportation	232	53	673	958
Veterans Administration	77	0	99	176
<b>SUM</b>	<b>41,472</b>	<b>168</b>	<b>12,526</b>	<b>54,166</b>

*N/A - Data not available.*

*Sum - The sum represents the aggregate amount reported by agencies providing data.*

*The total of all agencies would be greater.*

*13/ thru 17/ See Technical Notes in Appendix.*

## INVESTIGATIONS: NUMBER OF CASES

October 1, 1981 - March 31, 1982

<i>Agencies</i>	<i>Cases Open October 1</i>	<i>Cases Opened</i>	<i>Cases Closed</i>	<i>Cases Remaining Open March 31</i>
Agriculture	1,279	1,610	1,033 <u>18/</u>	1,856
Agency for International Development	70	72	66	76
Commerce	253	132	129	256
Community Services Administration	170	68	139	99
Defense	3,803	7,823	7,517	4,109
Education	274	119	101	292
Energy	209	86	93	202
Environmental Protection Agency	114	54	29	139
General Services Administration	680 <u>19/</u>	280	420	540
Health and Human Services	1,532	1,029	921	1,640
Housing and Urban Development	2,554	797	1,106	2,245
Interior	112	128 <u>20/</u>	91	149
Labor	537	305	331	511
National Aeronautics and Space Administration	293	164	153	304
Small Business Administration	305	193	138	360
State	101	119	87	133
Transportation	279	109	125	263
Veterans Administration	151	179	94	236
<b>SUM</b>	<b>12,716</b>	<b>13,267</b>	<b>12,573</b>	<b>13,410</b>

18/ thru 20/ See Technical Notes in Appendix.

**ALLEGATIONS RECEIVED****October 1, 1981 - March 31, 1982**

<i>Agencies</i>	<i>Total Allegations Received</i>	<i>Referred to: Audit/Inves- tigations</i>	<i>Program Management</i>	<i>Other</i>	<i>No Further Action</i>
Agriculture	259	18	183	0	58
Agency for International Development	11	6	1	1	3
Commerce	104	48	43	9	4
Community Services Administration	50	20	0	0	30
Defense	2,223	1,073	165	110	875
Education	92	47	40	2	3
Energy	129	86	12	2	29
Environmental Protection Agency	11	5	1	4	1
General Services Administration	698	96	72	34	496
Health and Human Services	681	12	145	24	500
Housing and Urban Development	262	55	117	0	90
Interior	358	227	101	6	24
Labor	122	27	85	2	8
National Aeronautics and Space Administration	60	35	7	4	14
Small Business Administration	75	39	36	0	0
State	142	121	5	6	10
Transportation	498	45	89	5	359
Veterans Administration	727	77	496	17	137
<b>SUM</b>	<b>6,502</b>	<b>2,037</b>	<b>1,598</b>	<b>226</b>	<b>2,641</b>

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## INVESTIGATION REFERRALS

October 1, 1981 - March 31, 1982

<i>Agencies</i>	<i>Prosecution Decision</i>	<i>Referred for: Administrative or Disciplinary Action</i>	<i>Further Investigation</i>
Agriculture	372	0	4
Agency for International Development	8	15	3
Commerce	17	7	2
Community Services Administration	0	0	16
Defense	1,689 <sup>21/</sup>	743	186
Education	57	5	0
Energy	26	9	20
Environmental Protection Agency	16	0	0
General Services Administration	57	127	18
Health and Human Services	160	29	N/A
Housing and Urban Development	172	887	33
Interior	28	62	4
Labor	95	104	16
National Aeronautics and Space Administration	19	44	27
Small Business Administration	68	30	13
State	8	12	3
Transportation	15	51	2
Veterans Administration	69	39	0
<b>SUM</b>	<b>2,876</b>	<b>2,164</b>	<b>347</b>

*N/A - Data not available.**Sum - The sum represents the aggregate amount reported by agencies providing data.**The total of all agencies would be greater.**21/ See Technical Notes in Appendix.*

**PROSECUTION ACTIVITIES****October 1, 1981 - March 31, 1982**

<i>Agencies</i>	<i>Declined</i>	<i>Settlements</i>	<i>Indictments</i>	<i>Convictions</i>
Agriculture	55	N/A	371	442
Agency for International Development	2	1	0	0
Commerce	12	0	11	3
Community Services Administration	77	0	37 <sup>22/</sup>	16
Defense	935 <sup>23/</sup>	N/A	8	71
Education	21	2	24	32
Energy	18	0	6	5
Environmental Protection Agency	8	0	0	0
General Services Administration	41	13	13	13
Health and Human Services	69	7	114	144
Housing and Urban Development	528	10	152	145
Interior	19	0	4	7
Labor	44	N/A	77	70
National Aeronautics and Space Administration	12	0	17	12
Small Business Administration	22	0	9	9
State	7	0	3	7
Transportation	17	N/A	77	45
Veterans Administration	22	2	2	29
<b>SUM</b>	<b>1,909</b>	<b>35</b>	<b>925</b>	<b>1,050</b>

*N/A - Data not available.**Sum - The sum represents the aggregate amount reported by agencies providing data.**The total of all agencies would be greater.**22/ thru 23/ See Technical Notes in Appendix.*

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## SIGNIFICANT ADMINISTRATIVE ACTIONS

October 1, 1981 - March 31, 1982

Agencies	R	D	Personnel* S	T	Suspensions and Debarments
Agriculture	N/A <u>24/</u>	N/A	N/A	N/A	N/A
Agency for International Development	2	0	1	4	1
Commerce	2	0	1	4	0
Community Services Administration	0	0	0	30 <u>25/</u>	0
Defense	120 <u>26/</u>	16	6	37	2
Education	1	0	1	0	0
Energy	3	0	7	7	0
Environmental Protection Agency	0	0	0	1	0
General Services Administration	10	1	2	5	95
Health and Human Services	2	2	3	7	52
Housing and Urban Development	39	0	7	5	88
Interior	1	2	2	4 <u>27/</u>	0
Labor	0	0	2	1	N/A
National Aeronautics and Space Administration	54	1	22	27	3
Small Business Administration	2	0	2	6	0
State	1	0	5	13	0
Transportation	3 <u>28/</u>	3 <u>29/</u>	3	6	18 <u>30/</u>
Veterans Administration	23	2	14	23	14
<b>SUM</b>	<b>263</b>	<b>27</b>	<b>78</b>	<b>180</b>	<b>273</b>

\*Personnel: R = Reprimands; D = Demotions; S = Suspensions; T = Terminations.

Sum - The sum represents the aggregate amount reported by agencies providing data.

The total of all agencies would be greater.

24/ thru 30/ See Technical Notes in Appendix.

## **DEFINITIONS OF DATA ELEMENTS**



## **DEFINITIONS**

### **ALLEGATIONS RECEIVED**

The Inspectors General maintain hotlines and other methods for receiving allegations of fraud, waste, or mismanagement both from the general public and from agency employees. Allegations may be made directly to the IG hotlines and the the Offices of Inspector General, or referred by the Congress, other Executive branch agencies, and the General Accounting Office. This category shows the total number of allegations received, the number referred, and the number not referred (no further action required).

### **COSTS AVOIDED**

Costs avoided represent estimated amounts that will be avoided as a result of management's commitment to implement auditors' recommendations. The funds which will be saved as a result of this commitment may be made available for other, more effective and efficient use by agency management. Costs avoided include:

- o deobligations and/or reprogramming of funds as a result of Inspector General reviews of agency programs;
- o costs proposed in contract or grant agreements which will not be incurred as a result of management's concurrence with pre-award audit recommendations (recorded based on the negotiation and award of the contract or grant agreement);
- o costs associated with management's commitment to implement recommended improvements in agency operations and systems (not represented by a deobligation or reprogramming); and
- o economy and efficiency (operational) audits of contractors' operations.

This category is divided into one-time and recurring per-annum savings.

### **INVESTIGATION RECOVERIES**

Investigations by the Offices of Inspector General may result in the recovery of monies or property of the Federal government. The totals shown here represent:

- o the recoveries which management has committed to achieve as the result of investigations during this six month period;
- o recoveries where a contractor during the six month period agrees to return funds as a result of investigations; and
- o actual recoveries during this six month period not previously reported in this category.

These recoveries are the direct result of the investigation efforts of the IGs and are not included in the amounts reported as the results of audits or litigation.

### **INVESTIGATION REFERRALS**

Investigation referrals are cases that require additional investigation work, civil or criminal prosecution, or disciplinary action. These cases are referred by the IG to investigating and prosecuting agencies at the Federal, state, or local level, or to agencies for personnel or administrative action. An individual case may be referred for disposition in one or more of these categories.

### **INVESTIGATIONS: NUMBER OF CASES**

This category includes the number of cases open at the beginning of the reporting period, cases opened during the period, cases closed during the period, and the cases remaining open at the close of the period. For purposes of this report, a case is considered opened when authorized but not yet assigned, and closed when the final investigation report has been issued, and/or all legal, civil or administrative action has been completed at the initial level of adjudication, or when no further action is required by the Inspector General.

### **LITIGATION: RECOVERIES, PENALTIES, SETTLEMENTS**

This category reflects the recoveries and penalties assessed through both civil and criminal actions. The category is divided into:

- o fines and penalties assessed;
- o restitutions ordered; and
- o settlements rendered.

The totals do not necessarily reflect the actual monetary recoveries by the Federal government as a result of litigation. Rather they are the amounts determined to be owed the Government.

### MANAGEMENT COMMITMENTS TO SEEK RECOVERIES

Agency management, not the Inspector General, is responsible for the actual recovery of funds questioned by the IG which management has agreed are owed the Government. The Inspectors General are, therefore, able to report only on management's commitment to make recoveries. The amounts shown in this category include:

- o the sustained monetary recommendations management has committed to receive by billing the audited organization or individual;
- o the sustained monetary recommendations management has committed to recover through offsetting existing and future contracts and grants;
- o contract price reductions resulting from incurred costs and defective pricing audits;
- o cash, checks, or goods returned to the Government in this six month period not previously reported in this category;
- o additional revenues resulting from audits, e.g., royalties, timber sales, franchise fees, etc.;
- o guaranty/direct funds referred for recovery; and
- o cost accounting standards audits.

### PROSECUTION ACTIVITIES

Investigative cases which are referred for prosecution are no longer under the jurisdiction of the Inspector General except for cases on which further administrative investigation may be necessary. This category represents cases investigated by the Inspectors General, cases jointly investigated by the Inspectors General and the FBI (or other law enforcement agencies), or cases jointly investigated by IGs (with the IG initiating the case and reporting on its disposition). Prosecution agencies will make decisions to decline prosecution, to refer for civil action, or to seek out of court settlements, indictments, or convictions. Cases declined represents the number of cases referred which are declined for prosecution (not including cases which are settled without prosecution). Cases settled represents the number of individuals or organizations with whom settlements are reached in lieu of prosecution including pre-trial diversions. Indictments and convictions represent the number of individuals or organizations indicted or convicted (including pleas and civil judgments).

### **REPORTS ISSUED**

The number of audit reports issued by, or under the cognizance of, the Inspector General. The total number of reports includes reviews of agency programs and operations, pre-award audits, and audits of the records and performance of grantees, borrowers, and contractors in accordance with generally accepted auditing standards. The audits by IG includes those audits conducted by the Office of Inspector General staff. The audits for which cognizance is provided include grantee-initiated audits performed in accordance with Attachment P, "Audit Requirement," to Circular A-102, "Administrative Requirements for Grants-in-Aid to State and Local Governments," for which the reporting agency is the cognizant agency. The audits by others includes audits performed for the reporting IG by DCAA, another Inspector General, a state or local government auditor, or an independent public accountant other than those for which cognizant audit agency functions are performed. Audits conducted by the General Accounting Office are not counted.

### **SIGNIFICANT ADMINISTRATIVE ACTIONS**

The findings and recommendations of Inspector General audits and investigations may result in agencies taking administrative actions against contractors and Civil Service employees. The more significant of these actions includes reprimands, demotions, personnel suspensions, terminations of employees (including resignations and retirements of persons under investigation), suspensions and debarments. Individual cases may involve one or more of these personnel actions.

**TECHNICAL NOTES**

## TECHNICAL NOTES

These notes refer to the Summary Tables throughout the report as noted.

### **Costs Avoided (page 19)**

1. Includes One-Time Cost Avoidance of \$3,275,995,121 from pre-award contract audits and \$126,800,000 Per-Annum Cost Avoidance from audits of contractor operations.
2. Includes \$5,108,000 resulting from the technical inspections program of the Office of Audits.
3. HUD's general policy is not to monetize certain management findings and report them as cost avoidance, but rather to report such matters in terms of increased efficiency or productivity.
4. Represents only investigative data.
5. Includes approximately \$76.8 million of recommended decreases in future construction requirements planned for funding in fiscal year 1984-1989.
6. Includes \$201,680 savings from FECA cases conducted jointly by VA and DOL investigators.

### **Management Commitments to Seek Recoveries (page 23)**

7. Includes \$404,850,369 from contract audits.
8. Includes \$1,637,000 resulting from the technical inspections program of the Office of Audits.

### **Litigation: Recoveries, Penalties, Settlements (page 29)**

9. Included in Investigation Recoveries.

### **Unresolved Audits Over Six Months Old (page 34)**

10. Includes DCAA other than pre-award audits.
11. Not including 7 audits precluded from resolution by pending litigation.
12. Less than \$10,000.

## **APPENDIX I**

### **Reports Issued (page 51)**

13. 24 reports were based on DCAA audit work, 2 on ICA work and 7 on HHS work, which were then supplemented by AID audit work.
14. Includes reports issued by DCAA and Army Corps of Engineers under contract, plus all DOD work.

15. Contains audits performed by groups absorbed into the OIG during the reporting period.
16. Includes 18 technical inspection programs of the Office of Audits and 5 audits performed for other Federal agencies.
17. Audits for which cognizance is provided are included in audits by others.

**Investigations: Number of Cases (page 52)**

18. Includes 111 cases cancelled.
19. Includes 29 cases not previously reported due to data entry problems.
20. Includes 27 cases not previously reported due to lag time in conversion to computerized system.

**Investigation Referrals (page 54)**

21. Includes information for three of the four DOD criminal investigative organizations.

**Prosecution Activities (page 55)**

22. Includes certain indictments reported in this period but occurring prior to 10/1/81.
23. Includes information for three of the four DOD criminal investigative organizations.

**Significant Administrative Actions (page 56)**

24. Total of 36 administrative actions; OIG MIS does not record nature of actions taken.
25. Grantee employees.
26. Includes information for three of the four DOD criminal investigative organizations. An additional 221 cases are excluded since they did not apply to any category.
27. Employee resignations.
28. Includes reprimands/counseling.
29. Includes reassignments and reclassifications as well as demotions.
30. Other administrative actions include MBE decertification (1) and restitutions (13).

# **MEMBERSHIP OF THE PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY**



## **MEMBERSHIP OF THE PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY**

### **Office of Management and Budget**

Joseph R. Wright, Jr.  
Deputy Director and Chairman of the Council

### **Department of Agriculture**

John V. Graziano  
Inspector General  
447-8001

### **U.S. Agency for International Development**

Herbert L. Beckington  
Inspector General  
632-7844

### **Department of Commerce**

Sherman M. Funk  
Inspector General  
377-4661

### **Community Services Administration**

K. William O'Connor  
Inspector General  
254-6004

### **Department of Defense**

Joseph H. Sherick  
Assistant to the Secretary of Defense for Review and Oversight  
695-4249

### **Department of Education**

James B. Thomas, Jr.  
Inspector General  
245-1694

### **Department of Energy**

James R. Richards  
Inspector General  
252-4393

### **Environmental Protection Agency**

Matthew N. Novick  
Inspector General  
382-3137

### **General Services Administration**

Joseph A. Sickon  
Inspector General  
566-0450

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**Department of Health and Human Services**

Richard P. Kusserow  
Inspector General  
472-3148

**Department of Housing and Urban Development**

Charles L. Dempsey  
Inspector General  
755-6430

**Department of the Interior**

Richard Mulberry  
Inspector General  
343-5745

**Department of Justice**

Edward C. Schmults  
Deputy Attorney General  
633-2101

William D. Van Stavoren  
Deputy Assistant Attorney General  
633-3103

**Department of Justice - Federal Bureau of Investigation**

Oliver B. Revell  
Assistant Director, Criminal Investigative Division  
324-4260

**Department of Labor**

Thomas F. McBride  
Inspector General  
523-7296

**National Aeronautics and Space Administration**

June Gibbs Brown  
Inspector General  
755-2284

**Office of Personnel Management**

Donald J. Devine  
Director  
632-6106

**Small Business Administration**

Paul R. Boucher  
Inspector General  
653-6597

**Department of State**

Robert L. Brown  
Inspector General  
632-8842

**Department of Transportation**

Joseph P. Welsch  
Inspector General  
426-8584

**Department of the Treasury**

Paul K. Trause  
Inspector General  
566-6900

**Veterans Administration**

Frank S. Sato  
Inspector General  
389-2636

**OFFICES OF INSPECTOR GENERAL**

## **OFFICES OF INSPECTOR GENERAL**

### **Department of Agriculture**

Room 247E Administration Building  
Washington, DC 20250

### **U.S. Agency for International Development**

Room 5644 State  
320 21st Street, N.W.  
Washington, DC 20523

### **Department of Commerce**

Room 7898-C Main Commerce  
Washington, DC 20230

### **Community Services Administration**

Room 548  
1200 19th Street, N.W.  
Washington, DC 20506

### **Department of Defense**

Assistant to the Secretary of Defense for Review and Oversight  
Room 3E1081 Pentagon  
Washington, DC 20301

### **Department of Education**

Room 4022 Switzer Building  
330 C Street, S.W.  
Washington, DC 20202

### **Department of Energy**

Room 5A249  
1000 Independence Avenue, S.W.  
Washington, DC 20585

### **Environmental Protection Agency**

401 M Street, S.W. (Code A-109)  
Washington, DC 20460

### **General Services Administration**

Room 5340  
18th and F Streets, N.W.  
Washington, DC 20405

### **Department of Health and Human Services**

Room 5250 North Building  
Washington, DC 20201

### **Department of Housing and Urban Development**

Room 8256  
451 7th Street, S.W.  
Washington, DC 20410

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**Department of the Interior**

Interior Building  
Room 5342  
19th and C Streets, N.W.  
Washington, DC 20240

**Department of Justice**

Counsel, Office of Professional Responsibility  
Room 4306, Main Justice  
Washington, DC 20530

Deputy Assistant Attorney General  
Room 1111, Main Justice  
Washington, DC 20530

**Department of Labor**

Room S1303  
200 Constitution Avenue, N.W.  
Washington, DC 20210

**National Aeronautics and Space Administration**

Room 6075 (Code W)  
400 Maryland Avenue, S.W.  
Washington, DC 20546

**Small Business Administration**

Room 1018  
1441 L Street, N.W.  
Washington, DC 20416

**Department of State**

Room 6821 State  
2201 C Street, N.W.  
Washington, DC 20520

**Department of Transportation**

Room 9210  
400 7th Street, S.W.  
Washington, DC 20590

**Department of the Treasury**

Room 2412 Main Treasury  
Washington, DC 20220

**Veterans Administration**

Room 1100 McPherson Building  
1425 K Street, N.W.  
Washington, DC 20420

# AGENCY HOTLINE NUMBERS

## **AGENCY HOTLINE NUMBERS**

### **Department of Agriculture**

800-424-9121

202-472-1388

### **U.S. Agency for International Development**

FTS 235-3528.

703-235-3528

### **Department of Commerce**

800-424-5197

202-377-2495

### **Community Services Administration**

800-424-8005

202-254-6004

### **Department of Defense**

800-424-9098

202-693-5080

Autovon 223-5080

### **Department of Education**

FTS 755-2770

202-755-2770

### **Department of Energy**

FTS 252-4073

202-252-4073

### **Environmental Protection Agency**

800-424-4000

202-382-4977

### **General Accounting Office**

800-424-5454

202-633-6987

### **General Services Administration**

800-424-5210

202-566-1780

### **Department of Health and Human Services**

800-368-5779 (effective June 18, 1982)

202-472-4222

### **Department of Housing and Urban Development**

FTS 472-4200

202-472-4200



80

**Department of the Interior**

800-424-5081

202-343-2424

**Department of Justice**

202-633-3365

**Department of Labor**

800-424-5409

202-357-0227

**Merit Systems Protection Board**

202-653-7107

**National Aeronautics and Space Administration**

800-424-9183

202-755-3402

**Small Business Administration**

FTS 653-7557

202-653-7557

**Department of State**

202-632-3320

**Department of Transportation**

800-424-9071

202-755-1855

**Department of the Treasury**

202-566-6900

**Veterans Administration**

FTS 389-5394

202-389-5394

The Director of Central Intelligence

Washington, D. C. 20505

Executive Registry

82-5308

DD/A REGISTRY  
FILE: 100-5

DD/A Registry

82-1534

16 June 1982

NOTE FOR: DDA

FROM: DCI

Harry:

Any ideas for us here?

C  
William J. Casey

Attachment:

Addressing Fraud, Waste  
and Abuse--A Summary  
Report of Inspector General  
Activities, by the President's  
Council on Integrity and  
Efficiency

# EXECUTIVE SECRETARIAT

## Routing Slip

TO:		ACTION	INFO	DATE	INITIAL
1	DCI		X w/o att		
2	DDCI		X " "		
3	EXDIR				
4	D/ICS				
5	DDI				
6	DDA	X w/att			
7	DDO				
8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/EEO				
14	D/Pers				
15	D/OEA				
16	C/PAD/OEA				
17	SA/IA				
18	AO/DCI				
19	C/IPD/OIS				
20	ES		X w/o att		
21					
22					
		SUSPENSE <u>25 JUNE</u> Date			

Remarks:

D/ Executive Secretary  
17 June 82  
Date

STAT